UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-- X

BURBERRY LIMITED,
a United Kingdom corporation, and

BURBERRY LIMITED,
a New York Corporation

Plaintiffs,

v.

ASHER HOROWITZ,

Defendant.

-- X

Civil Action No. 12 Civ. 1219 (PAC)

REPLY MEMORANDUM OF LAW IN FURTHER SUPPORT OF DEFENDANT'S MOTION TO DISMISS PLAINTIFFS' COMPLAINT

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PRELIMINARY STATEMENT

Defendant Asher Horowitz ("Horowitz" and/or "Defendant") respectfully submits this Memorandum of Law in further support of his Motion to Dismiss Burberry's Complaint, and upon dismissal of the action, for costs pursuant to F R C P 54 (d)(1) and attorney's fees pursuant to 15 U.S.C. §1117 (a). As demonstrated in Horowitz's moving papers, Burberry is barred on res judicata grounds from re-litigating the same claims it asserted against Designers Imports in *Action 1* against Horowitz in this action. As will be shown herein, Burberry fails to refute any of the points raised in Horowitz's motion to dismiss.

Burberry's entire opposition to the application of res judicata is based on the faulty supposition that a lack of privity exists between Designers Imports and Horowitz, yet, Burberry admits in its opposition papers that it intends to move for summary judgment on collateral estoppel grounds (Plf. Br. p. 17), which in and of itself would require a finding of privity between Horowitz and Designers Imports. Yet, Burberry does not dispute that it was a party to both actions, that its claims herein are identical to the claims asserted in *Action 1*, or that it knew about Horowitz's involvement and control of Designers Imports and Horowitz's potential individual liability under the Lanham Act at the time of filing *Action 1*. Instead, Burberry ***admits*** that it made a conscious decision not to assert claims against Horowitz in *Action 1* because it believed Designers Imports was a "substantial company" (Plf. MOL at p.14). It is precisely this type of claim splitting that res judicata is intended to prevent. Burberry also makes the unmeritorious contention that because it prevailed in *Action 1*, Horowitz is barred from raising a res judicata defense Such a distorted interpretation of the doctrine of res judicata is unsupported by law. Moreover, the factual contradictions permeating through Burberry's opposition papers emphasize Burberry's bad faith in filing and pursuing this action against Horowitz and supports Horowitz's motion for costs and attorney's fees.

REPLY ARGUMENT

A. Res Judicata Bars Burberry's Claims

Under the well-settled doctrine of res judicata "[a] final judgment on the merits of an action precludes the parties or their privies from re-litigating issues that were ***or could have been*** raised in that action [emphasis added]." See Federated Department Stores, Inc. v. Miotie, 452 U.S. 394, 398 (1981); Saud v. Bank of New York, 929 F.2d 916, 918 (2d Cir. 1991), In re Teltronics Services, Inc., 762 F.2d 185, 190 (2d Cir. 1985) (citation omitted). In this action, Burberry seeks to hold Horowitz individually liable for the same claims previously brought against Designers Imports by alleging that he was the moving force behind Designers Imports' infringing acts Herein, Burberry does not dispute that it was a party to both actions, that its claims herein are identical to the claims asserted in *Action 1*, or that it knew about Horowitz's involvement and control of Designers Imports and Horowitz's potential individual liability under the Lanham Act or the 2005 Settlement Agreement at the time of filing *Action 1*. As admitted by Burberry, a claim against Horowitz in his individual capacity was actionable in 2007 when Burberry filed *Action 1*, yet Burberry made the tactical decision not to join him as a party. (Plf. MOL at p.14).

Burberry tries to justify its decision by claiming that it believed a judgment against Designers Imports would be fully enforceable and by making unsubstantiated allegations that Horowitz transferred assets from Designers Imports in order to make it judgment proof, causing Burberry to file *Action 2*. While Horowitz completely denies Burberry's accusations, even if they were true, Burberry's recourse is not to bring a second action against Horowitz on the same claims already litigated in *Action 1*, but to bring an action on the *Action 1* judgment for fraudulent conveyance and/or to pierce the corporate veil, which Burberry is already doing in the State Court Action. See Ex. "C" to Fortuna Decl.; see also, Feitshans v. Khan, 2006 WL 2714706 at *5 (S.D.N.Y 2006) (While dismissing Plaintiff's first two causes of action on res judicata grounds, held plaintiff stated its third cause of action to hold defendants individually liable on the prior judgment on a piercing the corporate veil theory.) To permit Burberry to maintain *Action 2* against Horowitz vitiates the entire purpose of res judicata doctrine which requires a plaintiff to bring any and all legal theories about a particular set of facts forward in a single case, rather than unduly multiplying litigation and wasting party and judicial resources

1. The Existence of a Claim against Horowitz does not Preclude the Application of Res Judicata

Burberry argues that res judicata does not bar it from brining *Action 2* against Horowitz because it has cognizable claims against him that are independent of the claims asserted in *Action 1* against Designers Imports. However, whether or not Burberry has a legally cognizable claim against Horowitz is irrelevant to this Court's res judicata inquiry. Instead, this Court must determine whether the claims being brought against Horowitz arise from exactly the same nucleus of operative facts as those involved in *Action 1*, requiring Burberry to have brought the claims against Horowitz at the same time it asserted its claims against Designers Imports in *Action 1* See Akhenaten v. Najee, LLC, 544 F.Supp.2d 320, 328 (S.D.N.Y. 2008) ("'Although fair play demands that a party have his day in court, the doctrine of res judicata forecloses a second day [internal citation omitted.]'")

In support of its contention, Burberry relies on a string of cases finding a corporate officer individually liable for trademark infringement and counterfeiting under the Lanham Act and the common law. However, in stark contrast to the litigation strategy followed by Burberry in *Action 1*, in each of the cases relied on by Burberry the plaintiffs asserted claims against the individual corporate officers and the corporations in a single action, ***not consecutive actions*** as Burberry seeks to do. See Donsco, Inc v. Casper Corporation, et al., 587 F.2d 602, 603 (3d. Cir 1978) (Action brought against Casper corporation and Casper Pinsker, individually and doing business as Casper Imports, for alleged acts of unfair competition and false advertising.), Gucci America, Inc. v. Duty

Free Apparel, Ltd d/b/a Duty Free Apparel, Inc et al., 315 F.Supp.2d 511, 513 (S.D.N.Y. 2004) (Trademark infringement action brought against corporation and sole shareholder and officer of corporation for unlawfully selling counterfeit merchandise and in violating court's injunction.); Carell v. Shubert Organization, et al., 104 F.Supp.2d 236, 271 (S.D.N Y 2000) (Action for violations of copyright, reverse palming off in violation of Lanham Act and antitrust violations brought against various corporations and individuals); Bambu Sales, Inc v Sultana Crackers, Inc., 683 F Supp. 899, 913 (E.D N.Y. 1988) (Plaintiff brought trademark infringement and unfair competition action against various corporations and their principals for alleged trademark infringement, sale of counterfeit goods and unfair competition.) Burberry cannot cite to one case that permitted a plaintiff to split its claims against a party and its privies in bringing a claim for the same acts of trademark infringement.

2. Horowitz is in Privity with Designers Imports

To try to get around the well-settled law against claim splitting, Burberry relies on *Central Hudson Gas & Electric Corp v Empresa Naviera Santa S A.*, to argue that Horowitz and Designers Imports should be treated as separate tortfeasors 56 F 3d 359 (2d Cir 1995) However, the court's holding in *Central Hudson* is inapplicable to the instant action and readily distinguishable from the facts herein, making Burberry's reliance on the case entirely misplaced. Firstly, the court recognized that under Admiralty law Central Hudson's *in personam* claim against Empresa, the Vessel's charterparty and employer of the crew, is distinct from its *in rem* claim against the Vessel. The court then based its holding that the claim against Empresa is not barred by res judicata on a finding that there was ***no privity*** between Empresa and the Vessel. Id at 367. Specifically, the court found that while Empresa *shared control* of the defense of the Vessel in the *in rem* action with the Vessel's owner, it only participated in a representative capacity. The court further found that

Empresa's interests in the Vessel as charterer in the *in rem* action were not identical to the interests it would be defending in an action alleging *in personam* liability Id. at 368.

Notwithstanding the forgoing, the court in *Central Hudson* recognized that "the principle of privity bars relitigation of the same cause of action against a new defendant known by a plaintiff at the time of the first suit where the new defendant has a *sufficiently close relationship* to the original defendant to justify preclusion." Id. at 367-68. Herein, unlike in *Central Hudson*, the undisputed facts require a finding of privity between Horowitz and Designers Imports in *Action 1*. Burberry's own complaint sets forth the close relationship that exists between Horowitz and Designers Imports and their identity of interests. For instance, Burberry alleges that:

> 31 Upon information and belief, as the sole shareholder of, officer of and decision maker for, the Designers Imports corporation, defendant Horowitz controlled and directed Designers' Imports participation in the Designers Imports Civil Action
>
> 32 Specifically, Mr Horowitz instructed the corporation's lawyers, made all client decisions for Designers Imports as a litigant in the case, and otherwise controlled the participation of Designers Imports in the lawsuit
>
> 33. Further as sole shareholder of Designers Imports, Mr Horowitz had an economic interest in the outcome of the case.

See Ex. "A" to Fortuna Decl In its opposition, Burberry attempts to undo the significance of alleging that Horowitz acted "as a litigant" in *Action 1* by claiming that it was referring to Designers Imports and not Horowitz. If that were true, Burberry's complaint is poorly drafted since such an interpretation is far from clear in reading the complaint Nevertheless, whether Burberry is modifying Designers Imports or Horowitz with the phrase "as a litigant" is immaterial since the remainder of Burberry's allegations are enough to establish the existence of privity between Horowitz and Designers Imports and to distinguish this action from *Central Hudson*

For instance, Horowitz was a sole shareholder, officer and decision maker of Designers Imports. Empresa, on the other hand, was not the registered owner of the Vessel but rather the charterparty. Horowitz, as sole shareholder and officer of Designers Imports, retained counsel to represent Designers in *Action 1*, was deposed in *Action 1*, testified at the trial and was undeniably involved in all client decisions in *Action 1* Empresa, on the other hand, ***shared*** any control it may have had in the defense of the Vessel in the *in rem* action with the Vessel's owner. Additionally, as admitted by Burberry in its complaint, Horowitz, as sole shareholder, had an economic interest in the outcome of *Action 1*. Meanwhile, Empresa, as charterparty, did not have any economic interest at stake in an *in rem* action against the Vessel. Thus, the close relationship that exists between Horowitz and Designers Imports simply did not exist between Empresa and Vessel rendering the court's holding in *Central Hudson* inapplicable to this action.

Also without merit is Burberry's attempt to distinguish this action from Krepps v. Reiner. In determining privity between the individual defendant and the prior corporate defendant, the Second Circuit stated that "even if Reiner were not an officer of Cognitive Arts, it is undisputed that he was an employee acting within the scope of employment in connection with the matter here at issue." 377 Fed.Appx.65, 2010 WL 1932318, at * 3 (2d Cir May 14, 2010) In making this statement, the court acknowledges that if Reiner had been an officer of the corporation that would have been sufficient for finding privity between the parties. Herein, Horowitz is not only officer of Designers Imports, but was sole shareholder of the corporation, controlled the business operations of Designers Imports and the litigation in *Action 1* and was a party to the 2005 Settlement Agreement which Burberry sued on in *Action 1*, and is therefore in privity with Designers Imports. See also, Kreager v. General Elec. Co., 497 F.2d 468, 472 (2d. Cir.1974) (Permitting defendants to assert res judicata defense against individual plaintiff even though he was not a party to the prior action brought by his corporation, where plaintiff was president and sole stockholder of corporation and "participated in and effectively controlled the first action...was present in court throughout trial, attend conferences in chambers and was the corporation's principal witness."); Galet v. Coralace Embroidery Co., 1998 WL 386434 at * 2 (S D.N Y 1998) (allowing defendant who was not a party to the prior action to assert res judicata defense because as wholly owned subsidiary of defendant in prior action, there was a privity of parties), In re Teltronics Services, Inc., 762 F.2d 185, 191 (2d Cir. 1985) (finding that claims brought by bankrupt's shareholder on his own behalf were barred by res judicata because he was in privity with the bankrupt in the prior actions Plaintiff was the "founder, president, chairman of the board and a substantial shareholder . participated in and controlled the earlier litigation...[and had] a continuous and active "non-party" participation and ...apparent day to day leadership in the prior litigation."), Official Publications v. Kable News Company, Inc., 811 F Supp 143, 147 (S.D N.Y. 1993).

3. The Doctrine of Res Judicata Bars Repetitive Claims Brought by a Prevailing Party

Burberry's contention that Horowitz is barred from raising the defense of res judicata because it prevailed in the prior action demonstrates a complete misunderstanding of the doctrine of res judicata and is unsupported by any case law. (Plf. Br pgs 6-8) The defense of res judicata can be asserted against *any* plaintiff seeking to re-litigate claims that could have been brought in a prior action. See In re Teltronics, 762 F 2d at 190.

While there is a dearth of case law applying res judicata to a second action brought by a prevailing plaintiff against the same party or its privies, it is not because res judicata does not bar such actions, but because the doctrine of res judicata is so entrenched in the legal system that ***most*** plaintiffs, with the exception of Burberry, recognize the prohibition against serially litigating multiple claims arising out of the same nucleus of operative facts However, in few instances where a successful plaintiff has engaged in claim splitting, courts throughout the country have consistently applied res judicata to bar subsequent actions See, Migra v Warren City School District Board of Education, 465 U.S 75 (1984) (Plaintiff who prevailed in state court action on claims for breach of contract and wrongful interference with employment contract was barred by res judicata from bringing a Federal action based on the same alleged acts of wrongdoing.); Feitshans, 2006 WL 2714706 at *4; Luebke v. Marine Nat. Bank of Neenah, 567 F.Supp. 1460, (E.D.Wisc.1983)

(Successful plaintiff in state court action was barred by res judicata from asserting RICO claim in federal action based on the same alleged wrongful conduct. "The evidence supporting the state courts judgment for plaintiff would tend to support a judgment here [citation omitted]... [T]he federal proceeding appears to have been instituted as an afterthought following a successful trial on the merits in state court. In light of plaintiff's decision to proceed as he did, *res judicata* prevents him from requiring defendants to relitigate their defenses on another front."); Black v North Panola School District, 461 F 3d. 584 (5th Cir. 2006) (Successful plaintiff in state court action who recovered monetary judgment against defendants on claims under the Mississippi Tort Claims Act for alleged sexual assault of disabled daughter was barred by res judicata from bringing a federal action under for the same wrongful acts.); Clark v. Yosemite Community College District, 785 F.2d. 781, 786 (9th Cir. 1986) (a successful petitioner in a state court proceeding for a writ of mandate was barred by res judicata from bringing a federal action against defendants asserting different causes of action based on the same wrongful misconduct.)

Similarly, in Hanger Prosthetics & Orthotics East v. Henson, the Sixth Circuit affirmed dismissal on res judicata grounds of an action brought against a corporation's principals on the same claims for which plaintiff already held a judgment against the corporation. 299 Fed. Appx. 547, 2008 WL 4791321 (6th Cir. 2008). In *Hanger Prosthetics*, an action was first brought in state court against William Kitchens and Choice Inc. for Kitchen's breach of a non-compete agreement and Choice's involvement in the breach Id. Plaintiff prevailed in the state court action and recovered a judgment against Choice and Kitchens. Id. at *3. A month later, Plaintiff filed a federal action against Choice's principals and owners for breach of contract. Id. at *4. Like Burberry's complaint herein, the federal complaint in *Hanger Prosthetics* recited the state court's findings and conclusions, described the principals' involvement and control of Choice, sought to have the federal court adopt the findings of fact and conclusions of law made by the State court and the requested relief was the same amount of damages awarded in state court. Id. In finding that the federal action was barred by res judicata, the district court found that the individual defendants were in privity with Choice and that by the plaintiff's own admission the claims arise from the identical facts and theory of liability that resulted in the state court judgment. Id. at 6. In affirming the dismissal on res judicata grounds, the Sixth Circuit noted that plaintiff "in its federal complaint, 'expressly and affirmatively pleads that the issues, facts and or claims [in this action] are already conclusively established by the finding of fact and conclusions of law, actually litigated and necessarily decided by the Chancery Court." Id. at *9. Similarly, herein, it cannot be denied that Horowitz and Designers Imports are in privity or that the subject matter of *Action 2* is identical to *Action 1* See Ex "A" to Fortuna Decl. at pgs. 4-5, ¶¶ 2, 29-33 and prayer for relief at ¶ B. Thus, like in *Hanger Prosthetics*, this Court must find that *Action 2* is barred by res judicata.

B. The Remaining Grounds in Horowitz's Motion to Dismiss Merit Dismissal of *Action 2*

While preclusion of Burberry's claims against Horowitz under res judicata is dispositive, Burberry is also barred from maintaining *Action 2* under the merger doctrine and laches The merger doctrine stands for the proposition that Burberry's remedies on the claims underlying the *Action 1* judgment are limited to an action on the judgment. See NYPRAC-TORTS § 19·41 Merger and Bar ("A defendant may raise the defense of merger to a claim that was originally interposed and superseded by a judgment. Any subsequent action must be brought on the judgment, not on the underlying claim.") See also, Feitshans, 2006 WL 2714706, *5 Burberry has already recognized its duty to proceed on the *Action 1* judgment rather than the underlying claims in bringing the State Court Action against Horowitz and RTC See Ex "C" to Fortuna Decl

In addition, Burberry's opposition papers have failed to justify its delay in bringing its claims against Horowitz individually or to overcome the prejudice that would be suffered by Horowitz if Burberry were permitted to maintain *Action 2* As discussed in greater detail above, Burberry was at all times on notice of its potential claims against Horowitz when it filed *Action 1* in 2007 and, instead, made the tactical decision to only bring claims against Designers Imports in *Acton 1*. Moreover, there is no question that Horowitz would be prejudiced if Burberry is allowed to proceed with *Action 2*. Not only would Horowitz be forced to expend a significant amount of attorney's fees and time in defending claims that could have readily been litigated as part of *Action 1*, the nature of the *Action 2* complaint seeks to deny Horowitz of an opportunity to defend the claims by asking this Court to summarily adopt the findings and conclusions in *Action 1* and find him liable. Burberry's contention that Horowitz could avoid such prejudice by simply stipulating to entry of judgment against him (Plf. MOL at p 16-17) demonstrates Burberry's complete disregard of the concept of fairness in the judicial process as well as its warped perception of the strength of its claims in *Action 2*. Accordingly, unable to demonstrate the inapplicability of the merger or laches doctrines to its claims, Horowitz's motion to dismiss under these theories should be granted.

C. Horowitz is Entitled to Attorney's Fees and Costs

As discussed in greater detail above, Burberry's claims against Horowitz are barred by res judicata The factual contradictions permeating through Burberry's opposition papers and the absence of legal support that would allow Burberry to serially litigate the same claims in consecutive actions emphasize Burberry's bad faith in filing and pursuing this action against Horowitz and supports Horowitz's motion for costs and attorney's fees.

CONCLUSION

For the reasons stated in Horowitz's moving papers and herein, Horowitz's motion to dismiss Plaintiffs' entire complaint, and for costs and attorney's fees should be granted.

Dated May 30, 2012
New York, New York

Respectfully submitted,
ALLYN & FORTUNA LLP

By ______________________
Nicholas Fortuna, Esq.
Paula Lopez, Esq.